HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Gatineau[1]

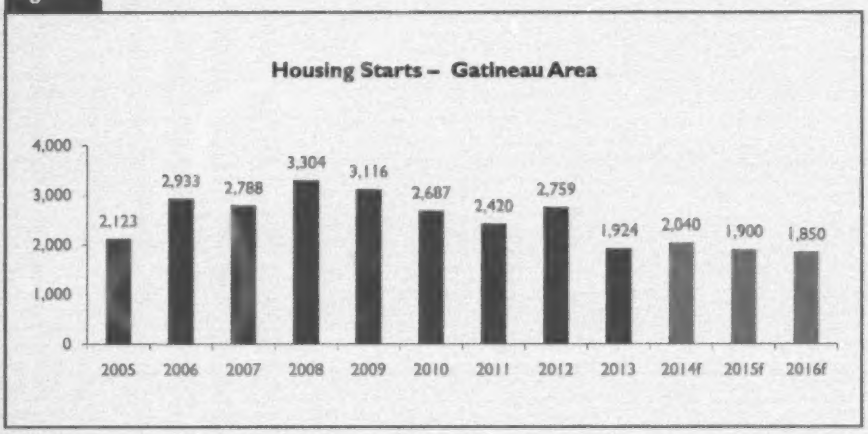
CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Fall 2014

Highlights

- Economic and demographic conditions will marginally support demand on Gatineau's housing market.
- Centris® sales will reach a low point this year and rebound slightly in 2015 and 2016.
- After increasing in 2014, residential construction will slow down over the next two years.
- The rental apartment vacancy rate will reach nearly 6 per cent over the forecast horizon.

Figure 1



Source: CMHC f: CMHC forecasts

[1] Quebec part of Ottawa-Gatineau CMA

The outlook is subject to uncertainty. Although point forecasts are presented in this publication, CMHC also presents risks where appropriate. The forecasts and historical data included in this document reflect information available as of October 22, 2014.

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New home market: residential construction will slow down over the next two years

Several factors will affect activity on the new home market in the Gatineau area over the next two years. On the one hand, buyers will benefit from a relatively abundant supply of new and existing homes on the market, which will limit the need for additional units. On the other hand, however, the fundamentals will slightly limit the downward trend. The small gains on the job market and in net migration will support, albeit marginally, demand on the new home market. Also, mortgage rates will remain favourable to housing demand, despite the expected slight increase. All together, these factors will contribute to the slowdown in housing starts.

In the single-detached housing segment, construction will stabilize after experiencing a significant downward trend over the past several years. In 2014, single-detached housing starts will reach 470 units, compared to 475 units in 2013. Residential intensification in the city of Gatineau (resulting from the municipal land use plan) will contribute to limiting activity in this segment and concentrating single-detached housing starts in the outlying sectors. In 2015 and 2016, this trend will continue, and the pace of single-detached housing construction will remain relatively stable and reach 450 units.

Construction of multi-unit housing should record somewhat of an adjustment in the years to come.

In the apartment segment, the start of a few large condominium housing projects in 2014, especially in the Hull sector, will bring total condominium starts close to 575 units, for an increase of 26 per cent. In the next few years, the wide choice of condominium units offered on the resale and new home markets will curb the construction of new units. This situation will encourage builders to limit their pace of activity and direct demand toward the unsold units they have in stock (see text box). Condominium starts will drop to 480 units in 2015 and then to 425 units in 2016. Also, the rental apartment vacancy rate will be relatively high in the area this year and over the next two years, which will temper the construction of new units of this type. So, rental housing starts will decrease to some 475 units in 2014, from 545 units in 2013. The number of rental housing starts will then decrease to 430 units in 2015 and to 375 units in 2016.

Semi-detached and row homes will continue to be favoured by their greater density compared to single-detached homes, particularly in the municipality of Gatineau. In 2014, the construction of semi-detached and row homes will increase to 500 units, compared to 411 units in 2013. In 2015 and 2016, housing starts in this segment will rise again and reach 550 and 600 units, respectively.

Multi-unit housing starts will therefore increase to 1,570 units (+7 per cent) in 2014 and then decrease to 1,460 units in 2015 and to 1,400 units in 2016.

In all, housing starts will rise by 6 per cent, to 2,040 units, in 2014. Even with this increase, the result will be relatively weak compared to the last several years when, on average, 2,720 starts were recorded annually from 2003 to 2013. In 2015, total starts will go down by 7 per cent, to 1,900 units. In 2016, the drop will be 3 per cent, for a total of 1,850 new units.

Resale market: after reaching a low, Centris® sales will increase slightly in 2015 and 2016

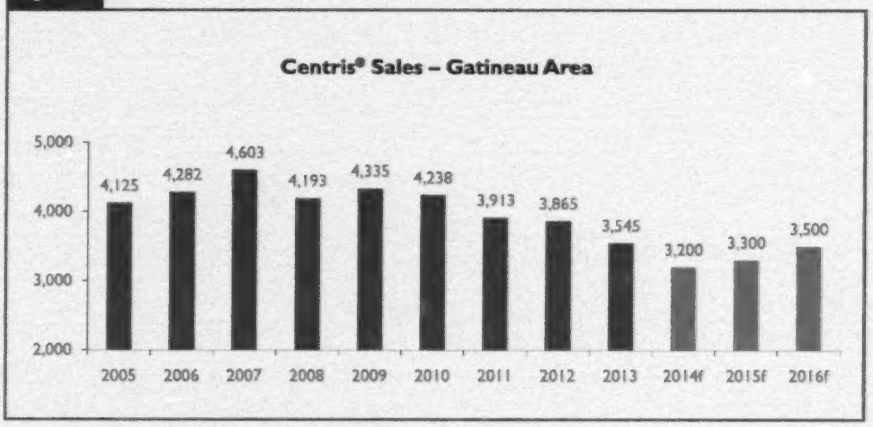
Centris® sales in the area will decrease for the fifth year in a row in 2014, to reach a low of 3,200 transactions (-10 per cent). This drop will extend to all market segments, but the condominiums will post the greatest decline. The demand for existing units was reduced by the relatively precarious situation on the job market, especially among households aged 25 to 44, and the weak income and population growth. In 2015 and 2016, with the slight increase in employment and net migration (see the employment section), the resale market will pick up again somewhat, especially in the single-family housing segment. However, overall transaction levels will remain weak compared to the last few years. In all, Centris® sales will reach 3,300 in 2015 (+ 3 per cent) and rise to 3,500 in 2016 (+ 6 per cent).

Conversely, the supply of properties for sale on the existing home market rose significantly in 2014. New Centris® listings will reach a high of 8,600 units, and the continued increase in the listing periods will bring active Centris® listings to a yearly average of 3,300 units in 2014. As well, while the increase in supply was observed in all market segments, the single-family and condominium segments will post the greatest increases in absolute terms. In 2015 and 2016, the upward trend will continue in all market segments.

However, the growth in supply will be tempered by the increase in transactions. Active Centris® listings will therefore reach 3,900 units in 2015 and 4,000 units in 2016.

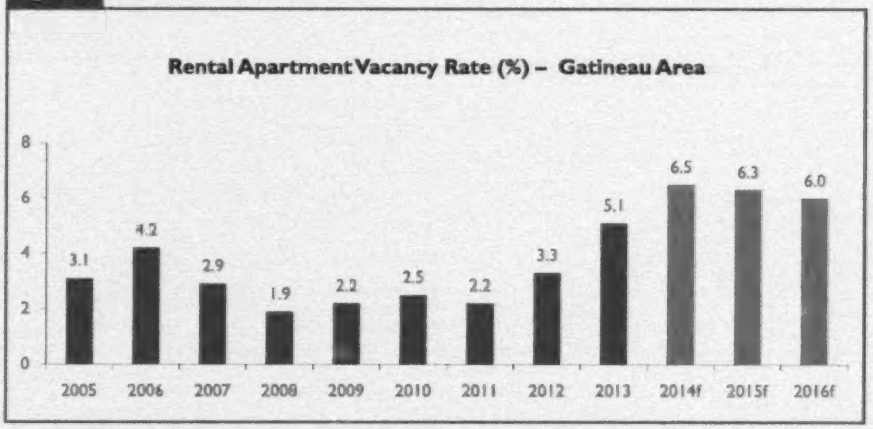
All together, the supply and demand dynamics on the resale market will result in softer market conditions and a market favourable to buyers[1] in 2014. In fact, all market segments will be favourable to buyers, but the condominium segment will post the softest market conditions. Consequently, there will be little pressure on prices on the overall market: the average Centris® price will reach $243,500, up by 0.1 per cent from 2013. In 2015 and 2016, the slight rise in Centris® sales will contribute to slowing the easing of the market, especially in the single-family housing segment, and to strengthening the growth in prices to some extent. However, market conditions will remain favourable to buyers. The average Centris® price will reach $246,100 in 2015 and $249,200 in 2016, for increases of 1.1 per cent and 1.3 per cent, respectively.

Figure 2



Source: QFREB, statistics Centris® f: CMHC forecasts

Figure 3



Source: CMHC f: CMHC forecasts

Rental market: conditions will remain soft

In Gatineau, the significant easing of the rental market that began two years ago will continue in 2014. Over the next two years, the rental market will remain soft, but the proportion of vacant units will stabilize. In 2014, the vacancy rate will rise to 6.5 per cent, compared to 5.1 per cent in 2013. This rate will then reach 6.3 per cent in 2015 and 6.0 per cent in 2016. This decrease will be attributable to the weaker rise in supply, which will be offset by a slight increase in demand.

On the supply side, the construction of rental housing units has been significant over the past two years. Starts reached a high of 717 units in 2012, followed by 545 units in 2013, a level above the historical average (508 units from 2003 and 2012).

In 2014, given the softer market conditions, the pace of rental apartment construction has begun to slow down and should continue to do so in 2015 and 2016. This will cause a smaller rise in the number of rental units on the market. In addition, condominium construction also rose significantly, with a non-negligible share of the units now offered for rent,[2] which has resulted in a greater

[1] The balanced range is between 8 and 10 sellers per buyer, indicating a market where neither buyers nor sellers are favoured. When this ratio is above 10 to 1, the power relationship between buyers and sellers changes and the edge goes to buyers.

[2] According to an analysis of the property assessment rolls for condominiums located in the Gatineau area.

supply of units competing with the traditional rental market. In 2015 and 2016, the competition from new rental condominiums will remain, but the growth in supply will be more moderate.

For its part, rental housing demand will be moderate in 2014. The weak employment, particularly among people aged from 25 to 44, and low net migration level will reduce renter household formation. In 2015 and 2016, employment growth of less than 1 per cent and a small increase in net migration will result in a slightly higher demand, as the rental market will remain a popular option among newcomers to the area.

Employment recovery will modestly support housing demand

The job market will show renewed growth by 2016, but only slightly. The job market has recently gone through a difficult period for the labour force, as job cuts in the public sector were not entirely offset by gains in certain parts of the private sector. This situation resulted in a decrease in the number of people working in the Gatineau area. While the job market has begun to rebound in 2014, employment has not returned to the level recorded prior to the slowdown, especially among people aged from 25 to 44. This has likely resulted in a relatively weak housing demand, since this group accounts for the major part of homebuyers in the area.[3]

In 2015 and 2016, the number of employed people will rise slightly. The rebound expected in private investments should moderately support the other economic sectors over the next two years. Employment growth, however, will remain below 1 per cent in 2015 and 2016.

These fluctuations on the job market will impact net migration in Gatineau. In 2013, following a decrease in employment, the area recorded a drop in net migration, to 1,566 people. In 2014, net migration will remain relatively stable, mainly thanks to international migration, and reach 1,500 people. In 2015 and 2016, as employment returns to levels similar to those observed prior to the slowdown, the area's appeal will improve. International migration will continue to sustain net migration, while movements between the Gatineau area and the other Canadian provinces, including Ontario, will be slightly more positive. As for in-migration, a greater number of people from other regions of the province will settle in the Gatineau area. All in all, net migration will reach 1,600 people in 2015 and 1,650, in 2016. Net migration levels will remain weak, though, compared to the average for the last 10 years (around 2,600 people annually).

The decrease in net migration had a particularly significant impact on rental housing demand. Census data show that most newcomers tend to rent when they first arrive in an area. Therefore, as net migration will increase, so will housing demand in this market segment.

Mortgage rates are expected to remain unchanged until the latter months of 2015

Consistent with the view of Canadian economic forecasters, CMHC expects interest rates to remain unchanged until the latter parts of 2015 and then begin to increase gradually. Gradual increases in mortgage rates from historic lows are not expected to significantly impact housing demand.

According to CMHC's base case scenario for 2014, CMHC expects the one-year mortgage rate to be in the 3.00 to 3.25 per cent range, while the five-year rate is forecast to be within the 5.00 to 5.50 per cent range. For 2015, the one-year mortgage rate is expected to be in the 3.20 to 4.00 per cent range, while the five-year rate is forecast to be within the 5.25 to 6.00 per cent range. For 2016, the one-year mortgage rate is expected to be in the 3.70 to 4.60 per cent range, while the five-year rate is forecast to be within the 5.55 to 6.45 per cent range.

[3] According to data from Statistics Canada's National Household Survey, close to 70 per cent of homebuyers in the Gatineau area were less than 44 years old.

Trends at a glance

Key Factors and their Effects on Housing Starts	
Mortgage Rates	Mortgage rates will remain low by historical standards and will continue to support housing demand.
Employment	Employment in the region should rebound in 2014 and grow slightly in 2015 and 2016. This trend reversal will support, albeit slightly, housing demand.
Income	After decreasing in 2013, average weekly earnings will rise this year and post small gains over the next two years. Income growth will help support housing demand to some extent.
Population	Net migration will improve, but will remain relatively weak, which will slightly support housing demand in the Gatineau area.
Resale Market	The relatively greater choice of properties for sale will weaken demand for new housing.

Forecast risks

This outlook is subject to some risks, including the following:

- Uncertainty remains in regard to the future evolution of the public sector, which accounts for a significant share of jobs in the Gatineau area. If, for example, employment in the public sector were to grow at a higher rate than expected, housing demand could rise significantly on the resale and new home markets. Conversely, new employment drops in the public sector would limit the increase in housing demand.
- Should the absorption of new condominiums in stock occur at a slower pace, the share of rental condominiums could grow more significantly. All things being equal, this could further ease rental market conditions.
- If net migration were to be weaker than expected, renter household formation would be slower. In that case rental market conditions could continue to ease and the proportion of vacant units would increase further.

Spotlight on...

Status of completed new and unabsorbed housing inventories in the Gatineau area

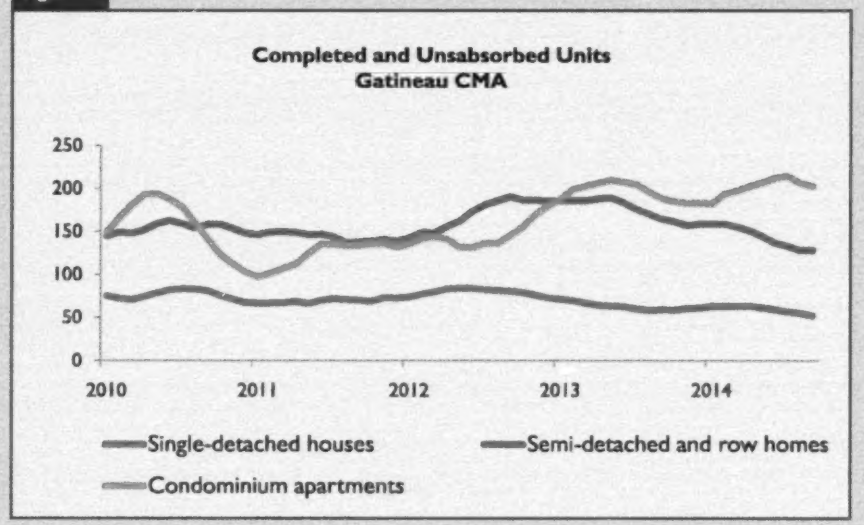
Inventories of new and unabsorbed units have risen significantly over the past few years. In all, new and unoccupied dwellings reached some 350 units in September 2014. This increase was essentially attributable to multi-unit housing, with inventories that reached approximately 310 units. An analysis of the data revealed that this phenomenon was the result of the significant construction of multi-unit housing combined with the slowdown in demand.

On the one hand, the number of unoccupied new semi-detached and row homes had posted a major increase over the past few years. Since 2013, the slowdown in construction has limited the growth in the inventories, which reached some 130 units in September. While this represents a decrease from the latest high of 200 units recorded in 2013, the level remains slightly above the annual average for the last 10 years (104 units). On the other hand, the number of unabsorbed condominium apartments, which also recently climbed significantly, did not experience an adjustment. The inventories of such dwellings remained at a historical high level of some 175 units in September (annual average of 121 units for the last 10 years). These units accounted for half of all inventories of new homes in the Gatineau area and were essentially concentrated in the city of Gatineau.

In the single-detached housing segment, the number of new and unabsorbed units remained relatively stable and was below 50 units in September—a level slightly below the average for the last 10 years (68 units).

Inventories of new and vacant units are concentrated in the condominium segment. Over the next few years, this situation will contribute to decreasing condominium housing starts, as it will encourage builders to direct the demand toward the vacant units rather than build new ones.

Figure 4



Source: CMHC

Forecast Summary Gatineau CMA Fall 2014									
	2011	2012	2013	2014(F)	% chg	2015(F)	% chg	2016(F)	% chg
New Home Market									
Starts:									
Single-Detached	784	688	475	470	-1.1	440	-6.4	450	2.3
Multiples	1,636	2,071	1,449	1,570	8.4	1,460	-7.0	1,400	-4.1
Starts - Total	2,420	2,759	1,924	2,040	6.0	1,900	-6.9	1,850	-2.6
Average Price ($):									
Single-Detached	346,788	366,940	380,056	384,000	1.0	389,000	1.3	394,000	1.3
Semi-Detached	190,966	206,050	224,011	225,500	0.7	229,000	1.6	232,500	1.5
New Housing Price Index (% chg.) (Ottawa-Gatineau)	3.0	2.6	0.4	0.4	-	2.0	-	1.5	-
Resale Market[1]									
Centris® Sales	3,913	3,864	3,544	3,200	-9.7	3,300	3.1	3,500	6.1
Centris® Active Listings	7,165	7,706	7,970	8,600	7.9	8,900	3.5	9,000	1.1
Centris® Active Listings	2,017	2,353	2,806	3,300	17.6	3,900	18.2	4,000	2.6
Centris® Average Price ($)	231,748	238,807	243,330	243,500	0.1	246,100	1.1	249,200	1.3
Rental Market[2]									
October Vacancy Rate (%)	2.2	3.3	5.1	6.5	-	6.3	-	6.0	-
Two-bedroom Average Rent (October) ($)	731	743	744	745	0.1	750	0.7	755	0.7
One-bedroom Average Rent (October) ($)	616	628	617	0	s.o.	0		0	s.o.
Economic Overview									
Mortgage Rate (1 year) (%)	3.52	3.17	3.08	3.00 - 3.25	-	3.20 - 4.00	-	3.70 - 4.60	-
Mortgage Rate (5 year) (%)	5.37	5.27	5.24	5.00 - 5.50	-	5.25 - 6.00	-	5.55 - 6.45	-
Annual Employment Level	172,500	173,000	169,600	172,800	1.9	173,300	0.3	174,000	0.4
Employment Growth (%)	2.2	0.3	-2.0	1.9	-	0.3	-	0.4	-
Unemployment rate (%)	6.8	6.1	6.4	6.5	-	6.1	-	6.0	-
Net Migration	2,927	1,793	1,566	1,500	-4.2	1,600	6.7	1,650	3.1

[1]The Centris® system contains all the listings of Québec real estate brokers.

[2]Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Statistics Canada (CANSIM), Centris® Statistics. CMHC Forecast (2014-2016)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly **Starts and Completions Survey**. Building permits are used to determine construction sites and visits confirm construction stages. A **start** is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's **Market Absorption Survey**, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "**absorbed**" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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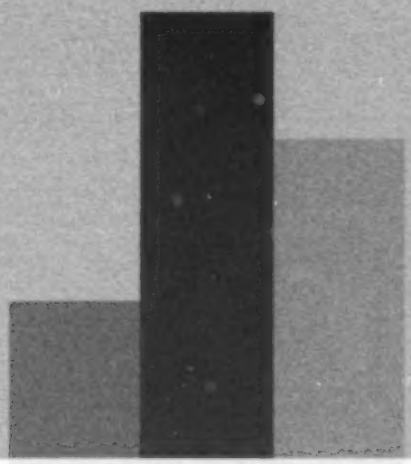

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